

12-1111

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m.
Wednesday, May 16, 1984



124174

SUMMARY OF
STATEMENT OF
SAMUEL W. BOWLIN
ASSOCIATE DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL
AFFAIRS DIVISION
BEFORE THE
SUBCOMMITTEE ON PANAMA CANAL/OUTER CONTINENTAL SHELF
HOUSE COMMITTEE ON MERCHANT MARINE AND FISHERIES
ON
GAO VIEWS CONCERNING
RETURN ON U.S. INVESTMENT IN THE PANAMA CANAL

Mr. Chairman and Members of the Subcommittee:

We are pleased to have the opportunity to present our views on how interest on the U.S. investment in the Panama Canal should be paid. Because of uncertainty regarding the method to be used in computing and paying the return on the U.S. investment in the Canal, we have qualified our opinion on the Commission's financial statements or reported on the need for an explicit statement of congressional intent of how interest should be treated every year since the Commission assumed operation of the Canal on October 1, 1979.

THE RETURN ON INVESTMENT ISSUE

The Panama Canal Act of 1979 provides that the United States will receive a return on its investment in the Panama

028870

Canal. Although the act does not clearly state what constitutes the interest-bearing U.S. investment, we are using it here to mean net direct investment as practiced by the Panama Canal Commission. The act also provides a formula for adjusting the U.S. investment in the Canal. Simply put, the investment is

--increased by expenditures from the Panama Canal

Commission Fund and

--decreased by deposits into the Fund.

What has happened is that interest on the U.S. investment valued at about \$47.6 million has been collected and deposited into the Fund. But these deposits have not been transferred to miscellaneous receipts of the Treasury. The deposits have reduced the interest-bearing investment, but since they have not been "expended" by being transferred to miscellaneous receipts there has been no corresponding offsetting increase in the interest-bearing investment. As a result, the interest-bearing investment has been eroded by the amount of interest paid into the Fund. This has the same effect as reducing the principal amount of an investment by the amount of interest paid thereon --a condition hardly intended by the drafters of the act.

EFFECT

The effect of all this, Mr. Chairman, is that as of March 31, 1984

--\$47.6 million has been collected as interest on the U.S. investment with none of these collections accruing to the benefit of the taxpayer;

- the interest-bearing U.S. investment being understated by this \$47.6 million;
- the under-statement of the interest-bearing investment account has resulted in a loss of \$11.7 million in interest income to the taxpayer; and
- unless this situation is resolved, the taxpayer will incur an additional loss of interest income estimated at \$75 million over the remaining life of the treaty.

SOLUTION

We believe, Mr. Chairman, that these matters can be corrected by requiring the Panama Canal Commission to

- pay interest collections into miscellaneous receipts of the Treasury;
- transfer into miscellaneous receipts those interest collections already temporarily deposited in the PCC Fund; and
- restore the interest-bearing investment by the amounts so transferred.

We will be happy to discuss this more fully and answer any questions that you have.